

**CLEVELAND TOWN**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**CLEVELAND TOWN  
BASIC FINANCIAL STATEMENTS  
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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Town Council  
Cleveland Town  
P.O. Box 325  
Cleveland, Utah 84518

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cleveland Town as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

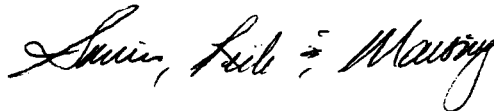
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund and remaining information of Cleveland Town as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 31, 2005 on our consideration of Cleveland Town's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Smuin, Rich & Marsing", written in dark ink.

Price, Utah

December 31, 2005

**CLEVELAND TOWN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

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Our discussion and analysis of Cleveland Town's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2005.

**FINANCIAL HIGHLIGHTS**

- ❖ The Town's net assets increased \$161,939 as a result of this year's operations. Net assets of our governmental activities increased by \$161,607, and our net assets of our business-type activities increased by \$332.
- ❖ Total expenses of \$223,916 were \$23,538 less than the direct revenues received of \$247,454 for governmental activities.
- ❖ In the Town's business-type activities, revenues of \$88,191 were \$332 more than the expenses of \$87,859 for these types of activities.
- ❖ Property Tax revenue for the year ended June 30, 2005 was \$16,601, Sales and Franchise Tax was \$63,640. Property Tax revenue increased by \$137, while Sales and Franchise Tax increased by \$8,288 from the previous fiscal year.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The financial reports: Statement of Net Assets and the Statement of Activities (on pages 11-12) provide information about the activities of the Town as a whole and present a long-term view of the Town's finances. Fund financial statements start on page 13. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most financially significant funds.

**REPORTING THE TOWN AS A WHOLE**

Our analysis of the Town as a whole begins on page 11. The Statement of Net Assets and Statement of Activities report information about the Town as a whole and about its activities in a way that helps determine if the Town is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's *net assets* and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the Town's financial position. Increases or decreases in the Town's net assets are one indicator of whether the financial position of the Town is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the Town's property tax base and the condition of the Town's roads, water lines, sewer lines, drainage systems, and other capital assets to assess the overall health of the Town.

## REPORTING THE TOWN AS A WHOLE (Continued)

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

**Governmental activities** - Most of the Town's basic services are reported here, including the general and administration cost, contributions to other agencies, fire, public works, parks department and cemetery. Property taxes, franchise fees, sales taxes and state and federal grants finance most of these activities.

**Business-type activities**—The Town charges a fee to customers to help cover all or most of the cost of services it provides. The Town's water, sewer and garbage services are reported here.

### Reporting the Town's Most Significant Funds

Our analysis of the Town's major funds begins on page 13. The fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the Town as a whole. Some funds are required to be established by State law and by bond covenants. The Town established other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

**Governmental funds**—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship or differences between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements.

The Town maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the permanent fund, both of which are considered to be major funds.

**Proprietary funds** – When the Town charges customers for the services it provides – to outside customers – these services are generally reported in proprietary funds. Proprietary funds are reported the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Town's Enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

### The Town as Trustee

The Town is a trustee – it is responsible for other assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the Town's activities are reported in the Permanent Fund as a Governmental Fund Type. The Town is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private-sector business. The Town's Statement of Net Assets, which increased during the current calendar year, presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. The government-wide financial statements include the Town's activity only. If the Town (the primary government) had accountability to any other entity (known as a component unit), that information would also be presented in the government-wide financial statements. The analysis below; focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Town's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and other assets	\$ 152,037	\$ 167,366	\$ 25,322	\$ 47,536	\$ 177,359	\$ 214,902
Capital assets	2,261,540	2,051,704	241,277	219,127	2,502,817	2,270,831
Total assets	\$ 2,413,577	\$ 2,219,070	\$ 266,599	\$ 266,663	\$ 2,680,176	\$ 2,485,733
<b>Liabilities</b>						
Current liabilities	\$ 4,304	\$ 5,235	\$ 4,329	\$ 4,545	\$ 8,633	\$ 9,780
Other liabilities	8,852	11,059	150	330	9,002	11,389
Total liabilities	\$ 13,156	\$ 16,294	\$ 4,479	\$ 4,875	\$ 17,635	\$ 21,169
<b>Net Assets</b>						
Invested in capital assets, net of debt	\$ 2,261,540	\$ 2,051,704	\$ 241,277	\$ 219,127	\$ 2,502,817	\$ 2,270,831
Restricted for:						
Class "C" roads	7,125	18,553			7,125	18,553
Perpetual Care Fees	124,067	122,367			124,067	122,367
Unrestricted	7,689	10,152	20,843	42,661	28,532	52,813
	<u>\$ 2,400,421</u>	<u>\$ 2,202,776</u>	<u>\$ 262,120</u>	<u>\$ 261,788</u>	<u>\$ 2,662,541</u>	<u>\$ 2,464,564</u>

## Government-wide financial statements (Continued)

Net Assets of the Town's governmental activities increased by 7.22 percent (\$2,400,421 compared to \$2,238,814). *Unrestricted* net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—is \$7,689 at the end of June 30, 2005.

Net Assets of our business-type activities increased .01 percent (\$262,120 compared to \$261,788). Unrestricted net assets for this group amounted to \$20,843. These net assets are used to finance the continuing operations of the water, sewer, electric and garbage service funds.

The Town's capitalization policy for assets that are being recorded as capital assets is \$5,000. This means that only those assets that the purchase price or valuation at the time of donation, are recorded in the asset list at the end of the reporting period.

**Table 2**  
**Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Program Revenues:</b>						
Charges for services	\$ 3,100	\$ 2,520	\$ 87,883	\$ 63,214	\$ 90,983	\$ 65,734
Operating grants and contrib.	39,650	359			39,650	359
Capital grants and contributions	204,704	39,252			204,704	39,252
<b>General Revenues:</b>						
Property taxes	16,601	16,464			16,601	16,464
Sales taxes	63,640	55,352			63,640	55,352
Highway taxes	27,110	31,172			27,110	31,172
Other general revenue	14,718	13,960	308	339	15,026	14,299
<b>Total revenues</b>	<b>\$ 369,523</b>	<b>\$ 159,079</b>	<b>\$ 88,191</b>	<b>\$ 63,553</b>	<b>\$ 457,714</b>	<b>\$ 222,632</b>
<b>Program Expenses</b>						
General government	\$ 96,300	\$ 90,301			\$ 96,300	\$ 90,301
Public safety	20,666	32,009			20,666	32,009
Highways and public improve.	73,270	58,971			73,270	58,971
Parks and recreation	33,680	30,652			33,680	30,652
Water			\$ 71,859	61,436	71,859	61,436
<b>Total expenses</b>	<b>\$ 223,916</b>	<b>\$ 211,933</b>	<b>\$ 71,859</b>	<b>\$ 61,436</b>	<b>\$ 295,775</b>	<b>\$ 273,369</b>
<b>Excess (deficiency) before transfers</b>	<b>\$ 145,607</b>	<b>\$ (52,854)</b>	<b>\$ 16,332</b>	<b>\$ 2,117</b>	<b>\$ 161,939</b>	<b>\$ (50,737)</b>



**Government-wide financial statements (Continued)**

**Table 2  
(Continued)  
Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Excess (deficiency) before transfers	\$ 145,607	\$ (52,854)	\$ 16,332	\$ 2,117	\$ 161,939	\$ (50,737)
Transfers	16,000		(16,000)			
Change in net assets	<u>\$ 161,607</u>	<u>\$ (52,854)</u>	<u>\$ 332</u>	<u>\$ 2,117</u>	<u>\$ 161,939</u>	<u>\$ (50,737)</u>
Net Assets - beginning	\$ 2,238,814	\$ 2,323,921	\$ 261,788	\$ 260,269	\$ 2,500,602	\$ 2,584,190
Prior period adjustment		(32,253)		(598)		(32,851)
Net Assets - ending	<u>2,400,421</u>	<u>2,238,814</u>	<u>262,120</u>	<u>261,788</u>	<u>2,662,541</u>	<u>2,500,602</u>
Change in net assets	<u>\$ 161,607</u>	<u>\$ (52,854)</u>	<u>\$ 332</u>	<u>\$ 2,117</u>	<u>\$ 161,939</u>	<u>\$ (50,737)</u>

The Town's operational goals for future years is to continue to strive to use the allotted funds in the best interest of the Town and those who are served by the Town's operations. As revenues increase, the funds will be used to make necessary improvements in government operations, road and recreation improvements, utility improvements and purchase of supplies and equipment that are appropriate and beneficial.

**Governmental Activities**

Revenues for the Town's governmental type activities, increased \$210,444, a 132.29 percent increase. Total expenses using these funds increased \$11,983, an increase of 5.65 percent. The largest increase in revenue was in intergovernmental grant proceeds. The largest increase in expenditures occurred in highways and public improvements. The largest sources of revenues are from sales and use taxes, CIB grant, and infrastructure grant work from CVSSD. These funds, and other special grants, enable the Town the opportunity to fund a variety of improvement and recreation projects. An overall increase in the revenues of approximately 132 percent compared to an increase of approximately 6 percent in expenditures has caused the increase in net assets for governmental activities of \$145,607 in 2005, before transfers.

### **Governmental Activities (Continued)**

The cost of all governmental activities this year was \$223,916. As shown in the Statement of Activities on page 12, Property, sales and franchise tax revenue and grant proceeds paid for all of these expenses in the current fiscal year. Class "C" road revenue of \$34,465 helped pay 47 percent of the Highway and public improvements costs. Overall, the Town's governmental program revenues \$247,454 paid 100 percent of the governmental activities expenditures.

Costs of the Town are centered within several programs—General government, Public safety, Highways and public improvements, and Parks and recreation. The net cost of expenditures (over) specific program revenues shows the financial burden that utilizes the Property taxes, Sales and franchise taxes and other miscellaneous revenue.

### **Business-type Activities**

Revenues of the Town's business-type activities increased 39.02 percent (\$87,883 compared to \$63,214) while expenses increased 16.96 percent (\$71,859 compared to \$61,436). The largest increase in expenses occurred in sewer collection services costs. All of the other expense categories for the business-type activities have not changed significantly during the current fiscal year. Water and sewer revenues have increased 59.94 percent due to an increase in residential and commercial rates.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the Town revised their budget once. The original budget was adopted on June 9, 2004 and was adjusted on June 9, 2005. The budget was amended from \$220,424 to \$374,070 and can be briefly summarized as follows:

- \$4,015 increase in general government expenditures
- \$32,146 increase in public safety expenditures
- \$72,985 increase in highways and public improvements expenditures
- \$44,500 increase in parks, recreation and public property expenditures

The increase was due primarily to an increase in intergovernmental revenues (\$140,196).

The actual charges for expenditures were \$397,713. This was \$33,552 higher than the final budget amounts. The most significant unfavorable variances occurred in administration (\$7,400), fire (\$9,934) and highways-general (\$3,940).

Resources for revenues were \$364,161. This was \$6,091 above the final budgeted amount. The most significant favorable variance (\$6,666) occurred in the General sales and use tax.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of June 30, 2005, the Town had \$2,995,921 (cost) invested in a broad range of capital assets, including water stock, land, buildings, improvements other than buildings, machinery and equipment, and infrastructure (see Table 3 below). This amount represents a net increase (including additions and deletions) of \$275,846, or a 9.31 percent decrease over the previous year.

Table 3  
Capital Assets at Year-End  
(Net of Depreciation)  
June 30, 2005

	Governmental Activities		Business-type Activities		Totals Primary Government	
	2005	2004	2005	2004	2005	2004
Water stock			\$ 241,277	\$ 219,127	\$ 241,277	\$ 219,127
Land	\$ 50,886	\$ 50,886			50,886	50,886
Buildings	177,917	184,782			177,917	184,782
Improvements other than buildings	234,230	210,170			234,230	210,170
Machinery and equipment	195,615	115,039			195,615	115,039
Infrastructure	1,602,892	1,526,865			1,602,892	1,526,865
Total assets activities	<u>\$ 2,261,540</u>	<u>\$ 2,087,742</u>	<u>\$ 241,277</u>	<u>\$ 219,127</u>	<u>\$ 2,502,817</u>	<u>\$ 2,306,869</u>

This year's major addition includes:

Capital improvements – New sidewalks, curbs and gutters	\$135,596
Basketball court	38,215
Equipment - Dump truck and snuffer unit	102,035

Paid with grant proceeds from the current year.

The Town's fiscal year 2006 capital budget calls for spending \$139,200 on capital projects; principally for the construction of curbs and gutters.

### **Long-term debt**

As of June 30, 2005, the Town did not have any long-term debt or capital leases. The Town is not planning to add any debt in the next fiscal year.

### **ECONOMIC FORECAST AND FUTURE BUDGET**

The Town applied for a Community Development Block Grant for Fire Department equipment in December 2005 and will not know if we are approved until February 2006. The Town also submitted a grant application to PCIB for a new Town maintenance truck and a lawn mower for the Cemetery. Again approval of this grant will not be known until April of 2006. The Town acquired a parcel of land on Main Street for future use in the construction of a Fire Station. The purchase price was \$15,000. The Town paid \$5,000 down and has agreed to pay \$5,000 per year with interest of 5.5 percent for two years. The Town entered into a contract with the Emery county Building & Zoning to have them provide construction inspections on new residences or businesses. In 2006, Cleveland Town is required to submit 90 percent of our B&C road funds to the Castle Valley Special Service District for the purpose of resurfacing the Town's streets. This project is placed on a six-year rotation, which includes other Emery County communities. Cleveland Town's current contract with City Sanitation will expire in June 2006. The Town will be advertising for a waste disposal contract in May of 2006.

### **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our community with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Recorder, Jamie Jensen at PO Box 325, Cleveland, Utah 84518.

**CLEVELAND TOWN  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 11,993	\$ 25,322	\$ 37,315
Cash restricted	131,192		131,192
Taxes receivable	8,852		8,852
Capital assets (net of accumulated depreciation):		241,277	241,277
Water stock	50,886		50,886
Land	177,917		177,917
Buildings	234,230		234,230
Improvements other than buildings	195,615		195,615
Machinery and equipment	1,602,892		1,602,892
Infrastructure			
Total assets	\$ 2,413,577	\$ 266,599	\$ 2,680,176
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 1,909	\$ 4,329	\$ 6,238
Accrued liabilities	2,395		2,395
Customer deposits payable		150	150
Deferred revenue	8,852		8,852
Total liabilities	\$ 13,156	\$ 4,479	\$ 17,635
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	\$ 2,261,540	\$ 241,277	\$ 2,502,817
Restricted for:			
Class "C" Roads	7,125		7,125
Perpetual Care Fees	124,067		124,067
Unrestricted	7,689	20,843	28,532
Total net assets	\$ 2,400,421	\$ 262,120	\$ 2,662,541

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
<b>Primary government:</b>						
<b>Governmental activities:</b>						
General government	\$ 96,300		\$ 39,650	\$ 1,049	\$ (95,251)	\$ (95,251)
Public safety	20,666				18,984	18,984
Highways and public improvements	73,270			169,190	95,920	95,920
Parks and recreation	33,680	\$ 3,100		34,465	3,885	3,885
<b>Total governmental activities</b>	<b>\$ 223,916</b>	<b>\$ 3,100</b>	<b>\$ 39,650</b>	<b>\$ 204,704</b>	<b>\$ 23,538</b>	<b>\$ 23,538</b>
<b>Business-type activities:</b>						
Water, Sewer and Garbage	\$ 71,859	\$ 87,883				\$ 16,024
<b>Total business-type activities</b>	<b>\$ 71,859</b>	<b>\$ 87,883</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 16,024</b>
<b>Total primary government</b>	<b>\$ 295,775</b>	<b>\$ 90,983</b>	<b>\$ 39,650</b>	<b>\$ 204,704</b>	<b>\$ 23,538</b>	<b>\$ 39,562</b>
<b>General revenues:</b>						
Property taxes					\$ 16,601	\$ 16,601
General sales and use tax					62,666	62,666
Franchise tax					974	974
Highway tax					27,110	27,110
Unrestricted investment earnings					4,098	\$ 308
Restricted investment earnings					338	338
Perpetual care fees					1,700	1,700
Miscellaneous					8,582	8,582
<b>Transfers:</b>					<b>16,000</b>	<b>(16,000)</b>
<b>Total general revenues and transfers</b>					<b>\$ 138,069</b>	<b>\$ (15,692)</b>
Change in net assets					\$ 161,607	\$ 332
<b>Net assets - beginning</b>					<b>2,238,814</b>	<b>261,788</b>
<b>Net assets - ending</b>					<b>\$ 2,400,421</b>	<b>\$ 262,120</b>
					<b>\$ 2,662,541</b>	<b>\$ 2,662,541</b>

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	GOVERNMENTAL FUND TYPES		
	GENERAL	PERMANENT	TOTALS
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 6,433	\$ 5,560	\$ 11,993
Cash restricted	7,125	124,067	131,192
Receivables (net):			
Taxes	8,852		8,852
Total assets	<u>\$ 22,410</u>	<u>\$ 129,627</u>	<u>\$ 152,037</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 1,909		\$ 1,909
Accrued liabilities	2,395		2,395
Deferred revenue	8,852		8,852
Total liabilities	<u>\$ 13,156</u>	<u>\$ ...</u>	<u>\$ 13,156</u>
Fund balances:			
Restricted for:			
Class C Roads	\$ 7,125		\$ 7,125
Perpetual Care Fees		\$ 124,067	124,067
Unreserved, reported in:			
General fund	2,129	5,560	7,689
Total fund balances	<u>\$ 9,254</u>	<u>\$ 129,627</u>	<u>\$ 138,881</u>
Total liabilities and fund balances	<u>\$ 22,410</u>	<u>\$ 129,627</u>	<u>\$ 152,037</u>

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

Total fund balances - governmental fund types: \$ 138,881

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore,  
are not reported in the funds.

Land and easements	\$ 50,886	
Buildings	177,917	
Improvements other than buildings	234,230	
Machinery and equipment	195,615	
Infrastructure	<u>1,602,892</u>	
		<u>2,261,540</u>

Net assets of governmental activities \$ 2,400,421

"The notes to the financial statements are an integral part of this statement."



**CLEVELAND TOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	TOTAL GOVERNMENTAL FUNDS		
	GENERAL	PERMANENT	TOTALS
REVENUES:			
Taxes	\$ 80,241		\$ 80,241
Licenses and permits	940		940
Intergovernmental	271,464		271,464
Charges for services	3,100		3,100
Miscellaneous revenue	8,416	\$ 3,662	12,078
Total revenues	\$ 364,161	\$ 3,662	\$ 367,823
EXPENDITURES:			
Current:			
General government	\$ 85,220		\$ 85,220
Public safety	47,434		47,434
Highways and public improvements	211,596		211,596
Parks, recreation, and public property	53,463		53,463
Total expenditures	\$ 397,713	\$ ...	\$ 397,713
Excess revenues over (under) expenditures	\$ (33,552)	\$ 3,662	\$ (29,890)
OTHER FINANCING SOURCES (USES):			
Perpetual care fees		\$ 1,700	\$ 1,700
Transfer in (out)	\$ 19,662	(3,662)	16,000
Total other financing sources (uses)	\$ 19,662	\$ (1,962)	\$ 17,700
Excess of revenues and other sources over (under) expenditures and other uses	\$ (13,890)	\$ 1,700	\$ (12,190)
FUND BALANCES - beginning of year	23,144	127,927	151,071
FUND BALANCES - end of year	\$ 9,254	\$ 129,627	\$ 138,881

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(12,190)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$275,846) exceeded depreciation (\$102,049) in the current period.

173,797

Change in net assets of governmental activities	\$	<u>161,607</u>
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"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
<b>REVENUES:</b>				
<b>Taxes:</b>				
Property taxes	\$ 17,559	\$ 18,059	\$ 16,601	\$ (1,458)
General sales and use tax	56,000	56,000	62,666	6,666
Franchise tax			974	974
Licenses and permits	2,200	2,200	940	(1,260)
Intergovernmental	129,665	269,861	271,464	1,603
Charges for services	10,000	8,650	3,100	(5,550)
Investment earnings	3,000	1,000	774	(226)
Miscellaneous revenue	2,000	2,300	7,642	5,342
<b>Total revenues</b>	<b>\$ 220,424</b>	<b>\$ 358,070</b>	<b>\$ 364,161</b>	<b>\$ 6,091</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>General government:</b>				
Administration	\$ 73,785	\$ 77,820	\$ 85,220	\$ (7,400)
Elections	20			
<b>Total general government</b>	<b>\$ 73,805</b>	<b>\$ 77,820</b>	<b>\$ 85,220</b>	<b>\$ (7,400)</b>
<b>Public safety:</b>				
Fire	\$ 5,354	\$ 37,500	\$ 47,434	\$ (9,934)
<b>Total public safety</b>	<b>\$ 5,354</b>	<b>\$ 37,500</b>	<b>\$ 47,434</b>	<b>\$ (9,934)</b>
<b>Highways and public improvements:</b>				
Highways - general	\$ 103,265	\$ 176,250	\$ 180,190	\$ (3,940)
Class "C" roads	30,000	30,000	31,406	(1,406)
<b>Total highways and public improvements</b>	<b>\$ 133,265</b>	<b>\$ 206,250</b>	<b>\$ 211,596</b>	<b>\$ (5,346)</b>

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>WITH</u>
				<u>FINAL BUDGET</u>
				<u>FAVORABLE</u>
				<u>(UNFAVORABLE)</u>
Parks, recreation, and public property:				
Parks			\$ 3,118	\$ (3,118)
Recreation	\$ 8,000	\$ 49,000	46,729	2,271
Cemetery		3,500	3,616	(116)
Total parks, recreation and public property	\$ 8,000	\$ 52,500	\$ 53,463	\$ (963)
Total expenditures	\$ 220,424	\$ 374,070	\$ 397,713	\$ (23,643)
Excess of revenue over (under) expenditures	\$ ...	\$ (16,000)	\$ (33,552)	\$ (17,552)
OTHER FINANCING SOURCES (USES):				
Transfers in		\$ 16,000	\$ 19,662	\$ 3,662
Total other financing sources (uses)	\$ ...	\$ 16,000	\$ 19,662	\$ 3,662
Excess of revenues and other sources over (under) expenditures and other uses			\$ (13,890)	\$ (13,890)
Fund balances - beginning of year	\$ 23,144	\$ 23,144	23,144	
Fund balances - end of year	\$ 23,144	\$ 23,144	\$ 9,254	\$ (13,890)

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005**

	<u>BUSINESS-TYPE ACTIVITIES ENTERPRISE</u>
	<u>WATER UTILITY</u>
 <u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 25,322
Total current assets	\$ 25,322
Noncurrent assets:	
Water stock	\$ 241,277
Total noncurrent assets	\$ 241,277
Total assets	\$ 266,599
 <u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 4,329
Total current liabilities	\$ 4,329
Noncurrent liabilities:	
Customer deposits payable	\$ 150
Total noncurrent liabilities	\$ 150
Total liabilities	\$ 4,479
Net Assets:	
Invested in capital assets, net of related debt	\$ 241,277
Restricted	
Unrestricted	20,843
Total net assets	\$ 262,120

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2005**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE
	WATER UTILITY
Operating revenues:	
Charges for sales and services	\$ 87,883
Total operating revenues	\$ 87,883
Operating expenses:	
Employee salaries	\$ 11,171
Employee benefits	855
Office supplies	72
Equipment supplies and maintenance	3,462
Water purchases	6,591
Sewer collection services	33,688
Garbage collection fees	15,620
Professional and technical	400
Total operating expenses	\$ 71,859
Operating income (loss)	\$ 16,024
Nonoperating revenues (expenses):	
Interest revenue	\$ 308
Total nonoperating revenues (expenses)	\$ 308
Income (loss) before transfers	\$ 16,332
Transfers In (Out):	
Transfers out	\$ (16,000)
Total transfers in (out):	\$ (16,000)
Change in net assets	\$ 332
Total net assets - beginning	261,788
Total net assets - ending	\$ 262,120

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF CASH FLOW - PROPRIETARY FUND TYPES**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	PROPRIETARY FUND TYPES	
	ENTERPRISE	
Cash flow from operating activities:		
Cash received from customers	\$ 87,703	
Cash payments to suppliers for goods and services	(60,049)	
Cash payments to employees for services	(12,026)	
Net cash (used) provided by operating activities		\$ 15,628
Cash flows from noncapital financing activities:		
Transfer to other funds	\$ (16,000)	
Net cash (used) provided by noncapital financing activities		(16,000)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	\$ (22,150)	
Net cash (used) provided by capital and related financing activities		(22,150)
Cash flow from investing activities:		
Interest and dividends on investments	\$ 308	
Net cash provided by investing activities		308
Net increase (decrease) in cash and cash equivalents		\$ (22,214)
Cash equivalents at beginning of year		47,536
Cash equivalents at end of year		\$ 25,322

"The notes to the financial statements are an integral part of this statement."

**CLEVELAND TOWN**  
**STATEMENT OF CASH FLOW - PROPRIETARY FUND TYPES**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	PROPRIETARY FUND TYPES	
	<hr/>	
	ENTERPRISE	
	<hr/>	
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income/(loss)	\$	16,024
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation		
Change in assets and liabilities:		
Increase (decrease) in accounts payable	\$	(216)
Increase (decrease) in customer deposits		(180)
		<hr/>
Total adjustments		(396)
		<hr/>
Net cash provided by operating activities:	\$	<u>15,628</u>

"The notes to the financial statements are an integral part of this statement."



**CLEVELAND TOWN**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**1. DEFINITION OF REPORTING ENTITY**

Cleveland Town is located in Southeastern Utah in Emery County. The Town government consists of a Mayor and Four Town Council members. The approximate population of the Town is 550.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Town are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- 1) The financial statements include:

Management's Discussion and Analysis (MD&A) section providing an analysis of the Town's overall financial position and results of operations.

Financial statements prepared using full-accrual accounting for all of the Town's activities, including infrastructure (roads, bridges, etc.).

- 2) A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

**A. Reporting Entity**

All financial activities and entities over which the Town has financial accountability are included in this report. The inclusion or exclusion of these entities was based on the criteria set forth in the Governmental Accounting Standards Board (GASB) pronouncements. The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of financial accountability by elected officials of the Town. In addition to financial accountability, consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operation, and accountability for fiscal matters. At June 30, 2005, the Town had no component units.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

### **B. Government-Wide and Fund Financial Statements**

Generally accepted accounting principles (GAAP) require that state and local governments provide a government-wide statement of net assets and a government-wide statement of activities. The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) are required to be presented using the economic resources measurement focus and the accrual basis of accounting, the same measurement focus and basis of accounting employed by private-sector business enterprises and not-for-profit organizations. The statements report information on all of the non-fiduciary activities of the Town. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The statement of net assets is the basic government-wide statement of position that presents all of the Town's permanent accounts (assets, liabilities, and net assets).

### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont.)**

Sales taxes, property taxes, franchise taxes, interest, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are recognized as revenue in the year for which they are levied. Amounts received or recognized as receivable at fiscal year end are included in the financial statements as taxes receivable and deferred revenue. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

**General Fund** – The General Fund is the Town's primary operating fund. It accounts for all financial resources of the general government, except those that are required to be accounted for in another fund.

**Permanent Fund** – The Permanent fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

The Town reports the following major proprietary funds:

**The Combined Enterprise Fund** accounts for the operation and maintenance of the Town's water, sewer and garbage distribution systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources, as they are needed.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

**D. Budgetary Data**

Budgets are presented on the modified accrual basis of accounting for all governmental funds and on the accrual basis for proprietary funds. All annual appropriations lapse at fiscal year end. The following procedures are used in establishing the budgetary data reflected in the financial statements.

1. During May of each year, the Mayor submits to the Town Council a proposed operating budget for the next fiscal year commencing July 1<sup>st</sup>. The operating budget includes proposed expenditures and the proposed sources of revenues. A final budget for the current year ending June 30 is also included.
2. Copies of the proposed budget are made available for public inspection and review by the citizens of the Town.
3. If the Town does not exceed the certified tax rate, a public hearing is held prior to June 22 and the budget is legally adopted through passage of a resolution. If the Town exceeds the certified tax rate, the budget is adopted in August when data is available to set the rates.
4. Once adopted, the budget can be amended by subsequent Town Council action. The Town Council can approve reductions in appropriations, but increases in appropriations, by fund, require a public hearing prior to amending the budget. In accordance with Utah State law, interim adjustments may be made by the administrative transfer of money from one appropriation to another within any given fund.
5. Minor interim adjustments in estimated revenues and appropriations during the year ended June 30, 2004, have been included in the final budget approved by the Town Council, as presented in the financial statements.
6. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund and the fund level for all other funds.

**E. Cash and Cash Equivalents**

The Town considers cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF), to be cash and cash equivalents.

**F. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

### G. Capital Assets

Capital assets, which include water stock, land, buildings, improvements, equipment, infrastructure assets (e.g., roads, curb, gutter, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized.

Buildings, improvements, equipment, and infrastructure assets of the Town are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	20-40
Machinery and equipment	5-20
Infrastructure	25-40

### H. Compensated Absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis and is fully vested when earned. At retirement, death, or termination, all unpaid accrued vacation is paid. Actual liability for unused vacation has been computed using current pay rate per hour for each hour of vacation. It is the Town's policy not to accrue unpaid vacation or sick leave.

### I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. The Town currently does not have any long-term debt.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**

### **J. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **3. DEPOSITS AND INVESTMENTS**

The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the combined balance sheet as cash and cash equivalents. Income from the investment of pooled cash is allocated based on fund balance. In addition, cash is separately held by individual funds.

The Town follows the requirements of the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7) in handling its depository and investment transactions. The Town does not have separate policies that address the specific types of deposit and investment risks to which the Town is exposed.

### **Deposits**

#### ***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be recovered. The Town's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires the depositing of Town funds in a *qualified depository*. The Act defines a *qualified depository* as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Town's deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The Town's deposits at June 30, 2005, were \$ 65,144. Of these deposits, all were insured.

### **Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the Town and the conditions for making investment transactions. Authorized investments include negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

### 3. DEPOSITS AND INVESTMENTS (Continued)

The Town is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external investment pool managed by the Utah State Treasurer's Office. The PTIF is not registered with the SEC as an investment company, and is authorized and regulated by the Money Management Act and the Money Management Council. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees – of the PTIF are allocated based on the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, the Town had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Maturity</u>	<u>Quality Rating</u>
Utah Public Treasurer's Investment Fund	\$ 103,393	57 days *	Not Rated

\* Weighted-average maturity

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Town manages its exposure to declines in fair value by investing only in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

#### *Credit Risk*

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The Town's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

4. **RESTRICTED CASH**

Restricted amounts are shown below.

**General Fund**

Class "C" Roads	<u>\$ 7,125</u>
-----------------	-----------------

**Permanent Fund**

Perpetual Care Fees	<u>\$ 124,067</u>
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5. **PROPERTY TAXES**

The property tax revenue of the Town is collected and distributed by the Emery County treasurer as an agent of the Town. Utah statutes establish the process by which taxes are levied and collected. The county assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30. Delinquent taxes are subject to a 2% penalty, with a \$10 minimum penalty. If delinquent taxes and penalties are not paid by January 15 of the following year, these delinquent taxes, including penalties, are subject to an interest charge at an annual rate equal to the federal discount rate plus 6%; the interest period is from January 1 until the date paid.

As of June 30, 2005, property taxes receivable consist of 1) taxes assessed as of January 1, 2005, but are not due and payable until November 20, 2005. It is expected that all delinquencies, plus accrued interest and penalties, will be collected within a five-year period, during which time, the County treasurer may force the sale of property to collect the delinquent portion. Only the portion of property taxes receivable that meets the revenue recognition criteria is reported as revenue in the fund financial statements.

Beginning January 1, 1992, there was levied, in lieu of the ad valorem tax, an annual uniform fee based on the value of motor vehicles. The uniform fee was 1.5% of the fair market statewide value of the property, as established by the State Tax Commission. On January 1, 1999, legislation became effective which made motor vehicles weighing 12,000 pounds or less subject to an "age-based" fee that is due each time the vehicle is registered. The revenues collected in each county from the uniform fee, are distributed by the county to each taxing entity in which, the property is located in the same proportion in which, revenue collected from ad valorem real property tax is distributed. The Town recognizes age-based fees as revenues when collected by the County.



## 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Primary Government</b>					
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land	\$ 50,886				\$ 50,886
Total capital assets not being depreciated	\$ 50,886	\$ ...	\$ ...	\$ ...	\$ 50,886
Capital assets being depreciated:					
Buildings	\$ 274,594				\$ 274,594
Improvements other than buildings	277,441	\$ 38,215			315,656
Machinery and equipment	201,332	102,035			303,367
Infrastructure	2,191,668	135,596			2,327,264
Total capital assets being depreciated:	\$ 2,945,035	\$ 275,846	\$ ...	\$ ...	\$ 3,220,881
Less accumulated depreciation for:					
Buildings	\$ 89,812	\$ 6,865			\$ 96,677
Improvements other than buildings	67,271	14,155			81,426
Machinery and equipment	86,292	21,460			107,752
Infrastructure	664,803	59,569			724,372
Total accumulated depreciation	\$ 908,178	\$ 102,049	\$ ...	\$ ...	\$ 1,010,227
Total capital assets being depreciated, net	\$ 2,036,857	\$ 173,797	\$ ...	\$ ...	\$ 2,210,654
Governmental activities capital assets, net	\$ 2,087,743	\$ 173,797	\$ ...	\$ ...	\$ 2,261,540

**6. CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
<b>Business-type activities:</b>					
Capital assets not being depreciated:					
Water stock	\$ 219,127				\$ 219,127
Total capital assets not being depreciated	\$ 219,127	\$ ...	\$ ...	\$ ...	\$ 219,127
Capital assets being depreciated:					
Machinery and equipment					
Total capital assets being depreciated:	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Less accumulated depreciation for:					
Machinery and equipment					
Total accumulated depreciation	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Total capital assets being depreciated, net	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
Business-type activities capital assets, net	\$ 219,127	\$ ...	\$ ...	\$ ...	\$ 219,127

6. **CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 11,080
Public safety	3,832
Highways and public improvements	68,705
Parks and recreation	<u>18,432</u>
Total depreciation expense -	
governmental activities	<u>\$ 102,049</u>

During the current fiscal year, a change has been made to the recording of the general fixed assets for the cemetery. Previously they were recorded as a separate Fiduciary Fund Type, but are now recorded as a Permanent Fund, which is a Governmental fund type. This change has been recorded in the beginning balances of these assets in the current audit. Land, Improvements and Machinery and equipment have been increased to reflect assets that were previously recorded in the Fiduciary Fund. Also, the corresponding accumulated depreciation has been increased to reflect previous years balances.

7. **WATER STOCK**

Because Cleveland Town is located in a semi-arid part of Utah and because the water supply is somewhat limited, the Town began purchasing water shares in 1982. New home construction in the Town is extremely limited because of water availability. The purchase of water shares by the Town has been made to allow for new construction at which time the water shares will be sold to prospective homebuyers.

The water shares are uninsured. The carrying value of the water shares is their cost, \$241,277. Exact market value is unknown; however, market is felt to be substantially greater than cost.

8. **FRANCHISE TAXES**

Franchise taxes are utility user pass-through taxes currently assessed at 3% of the related revenues of the cable television company, and are paid periodically throughout the year to the Town of Cleveland by the cable company.

9. **RESTRICTED BALANCES**

**Class "C" Roads**

Cash received but unspent at June 30, 2005, relating to Class "C" Road funds are restricted, and the appropriate reserved fund balance is also restricted for the purpose for which these funds were received.

**Cemetery Perpetual Care Funds**

This restricted fund balance and cash represents the accumulated amount received during the past years under the perpetual care plan maintained in connection with operations of the Town Cemetery. During the current year, \$1,700 was received for perpetual care purposes. This amount was added to the Fund. The Perpetual Care Fund produced \$3,662 of interest income during the year. The interest revenue is used to maintain and operate the cemetery.

10. **BUDGET VARIANCES**

For the year ended June 30, 2005, the Town had unfavorable budget variances in the following fund and departments:

General Fund: General government – administration  
Public safety – fire  
Highways and public improvements – Highways (general), roads  
Parks, recreation and public property – Parks, Cemetery

11. **PROPERTY TAX CALENDAR**

The Town adopts, by June 22, the proposed tax rates as part of its budget for the current year, which begins July 1. If the proposed rates exceed a certified tax rate, a special public hearing must be held before the final rate is adopted. The final tax rate is assessed by the county assessor on property in the County as of July 1. The taxes are payable to the County treasurer by the end of November and are remitted to the Town by the county treasurer as collected.

12. **RISK MANAGEMENT**

Cleveland Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is insured through commercial companies for its general liability coverage. At June 30, 2005, the Town had no claims or judgments filed against it related to the risks mentioned above.

**13. PUBLIC INVESTMENT POOLS**

Cleveland Town invests money with the Utah Public Treasurers Investment Fund. It is managed by the Utah State Treasurer and is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested in securities permitted by the Act and contain no withdrawal restrictions. Monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

**14. BUDGET CHANGES**

Below is a summary of the final budget for the fiscal year ended June 30, 2005:

<u>FUND</u>	<u>ORIGINAL BUDGET</u>	<u>BUDGET AMENDMENT NO. 1</u>	<u>FINAL BUDGET 06-30-05</u>
General	\$ 220,424	\$ 153,646	\$ 374,070

**15. PRIOR PERIOD ADJUSTMENT**

As previously mentioned, fixed assets and accumulated depreciation has been adjusted for the Governmental Funds assets. Assets of the previously reported Fiduciary Fund are now reported in the Permanent Fund (a governmental fund type). Therefore the balances of the Land, Improvements, and Machinery and Equipment, with corresponding accumulated depreciation have been changed in the beginning balances. Land has been increased by \$2,500, Improvements have been increased \$71,263, with a corresponding accumulated depreciation increase of \$38,240, and machinery and equipment has been increased \$16,463, with corresponding accumulated depreciation of \$15,947. All of these changes have been made in the beginning balances.

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

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## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Town Council  
Cleveland Town  
P.O. Box 325  
Cleveland, Utah 84518

RE: Report on Compliance and on Internal  
Control Over Financial Reporting Based  
on an Audit of Financial Statements  
Performed in Accordance With Government  
Auditing Standards

We have audited the financial statements of Cleveland Town as of and for the year ended June 30, 2005, and have issued our report thereon dated December 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

*Steve Rich & Marving*

Price, Utah

December 31, 2005

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor and Town Council  
Cleveland Town  
P.O. Box 325  
Cleveland, Utah 84518

Re: Report on Legal Compliance with Applicable  
Utah State Laws and Regulations

Ladies/Gentlemen:

We have audited the basic financial statements of the Cleveland Town for the year ended June 30, 2005, and have issued our report thereon dated December 31, 2005. As part of our audit, we have audited the Town's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The Town received the following major State assistance program from the State of Utah:

Class "C" Road (Utah Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

The Town also received the following nonmajor grants that are not required to audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Town's financial statements.)

Tree grant (Department of Natural Resources)  
CIB Grant (Department of Community and Economic Development)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Liquor Law Enforcement	Truth in Taxation and Property Tax Limitation
Uniform Building Code Standards	Other General Issues
B&C Road Funds	

The management of Cleveland Town is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.



We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in a separate letter issued December 31, 2005. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Cleveland Town complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended June 30, 2005.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laura Rich Marsing", is written over the printed name.

Price, Utah

December 31, 2005

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Honorable Mayor and Town Council  
Cleveland Town  
P.O. Box 325  
Cleveland, Utah 84518

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Cleveland Town for the year ended June 30, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

### **UTAH STATE COMPLIANCE**

### **BUDGETARY COMPLIANCE**

Utah Code states that Officers and employees of an entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. The Town has expenditures in excess of the budget for the General Fund.

We recommend that the Town comply with Utah Code and ensure that expenditures are within the approved budget, adopted by the Mayor and Town Council.

### ***Town's Response***

*We understand the importance of staying within approved budgets and complying with Utah State Law. We were unaware of the impact on our General Fund that was created due to the improvements to streets and gutters and other expenditures that have occurred. We will monitor our records closer in the future and make necessary adjustments to our budgets to stay in compliance with Utah Code.*

## **TRUTH IN TAXATION AND PROPERTY TAX LIMITATIONS**

The State Tax Commission requires the filing of form TC-693 Tax Rate Summary. The form has a column for "Budgeted Revenue." The amount in that column should be the same as the revenue amount in the Town's adopted budget. Upon review of the Town's TC-693, we noted that the amounts are not the same.

We recommend that the Town comply with the proper budgeting of current year tax revenue, by ensuring that the amounts reflected in the budget match the amounts that are on form TC-693.

### ***Town's Response***

*We realize that these two amounts should be the same and will review them closer in the future to ensure that they match.*

## **SUMMARY**

We feel the State Compliance issue mentioned above is an area where Cleveland Town can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



Price, Utah

December 31, 2005